



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 3, 2004

### **S.A. 2945**

#### **Fair Minimum Wage Act of 2004**

*Amendment proposed on March 30, 2004, to H.R. 4, the Personal Responsibility, Work, and Family Promotion Act of 2003*

#### **SUMMARY**

S.A. 2945, an amendment to H.R. 4, would amend the Fair Labor Standards Act (FLSA) to increase the federal minimum wage in three steps from \$5.15 per hour to \$7.00 per hour. The bill also would apply the minimum wage provisions of the FLSA to the Commonwealth of the Northern Mariana Islands (CNMI). The Congressional Budget Office estimates that enactment of this bill would have no significant effect on the federal budget.

The amendment would impose mandates, as defined by the Unfunded Mandates Reform Act (UMRA), on state and local governments, Indian tribes, and private-sector employers because it would require them to pay higher wages than they are required to pay under current law. The amendment also would preempt the minimum wage laws of the CNMI. CBO estimates that the costs to state, local, and tribal governments and to the private sector would exceed the thresholds established by UMRA. (The thresholds in 2004 are \$60 million for intergovernmental mandates and \$120 million for private-sector mandates, both adjusted annually for inflation.)

For the purposes of this estimate, CBO assumes the amendment will be enacted on July 1, 2004. If so, the minimum hourly wage would rise from \$5.15 to \$5.85 on September 1, 2004, to \$6.45 on September 1, 2005, and to \$7.00 on September 1, 2006.

#### **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

The amendment would impose both intergovernmental and private-sector mandates, as defined in UMRA, because it would require employers to pay higher wages than they are required to pay under current law. In addition, it would preempt the minimum wage laws of the CNMI. That preemption also is considered a mandate.

To estimate the direct cost to employers of raising the minimum wage (that is, the cost of the new requirement absent any change in their behavior), CBO used information on the number of workers whose wages would be affected in September 2004 and subsequent months, the wage rates these workers would receive in the absence of the bill, and the number of hours for which they would be compensated. The estimate was made in two steps. First, CBO used data from the Current Population Survey to estimate how much it would have cost employers to comply with the mandate had they been required to do so in late 2003. Second, that estimate was used to project the costs to employers beginning in September 2004, taking into account the expected decline over time in the number of workers in the relevant wage range. The methods used for this estimate are similar to those used for CBO's estimate of a similar proposal (S. 224) made in 2003.

CBO estimates that the costs to state, local, and tribal governments would exceed the threshold established by UMRA for intergovernmental mandates (\$60 million in 2004, adjusted annually for inflation) in each year beginning in fiscal year 2005. We also estimate that the costs to the private sector would exceed the annual threshold established in the law for private-sector mandates (\$120 million in 2004, adjusted annually for inflation) in each year beginning in fiscal year 2005. The table below summarizes the estimated costs of those mandates.

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**ESTIMATED COSTS OF MANDATES IN S.A. 2945**

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	By Fiscal Year, in Billions of Dollars				
	2004	2005	2006	2007	2008
<b>COSTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS</b>					
Increase the federal minimum wage	*	0.1	0.2	0.4	0.4
<b>DIRECT COST TO THE PRIVATE SECTOR</b>					
Increase the federal minimum wage	0.1	1.3	3.6	6.1	5.4
Apply the minimum wage to the CNMI	*	0.1	0.1	0.2	0.2

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Note: \* = Less than \$50 million.

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## **PREVIOUS CBO ESTIMATE**

On March 5, 2003, CBO transmitted a cost estimate for S. 224, the Fair Minimum Wage Act of 2003, as introduced on January 24, 2003. That bill would have raised the minimum wage in two steps to \$6.65 per hour, while S.A. 2945 would raise it in three steps to \$7.00 per hour.

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